

Auditing Procedures Report

Instructions and MuniCodes

*=Required Fields

Reset Form

Issued under Public Act 2 of 1968, as amended. (V1.07)

Unit Name* LAPEER CITY DOWNTOWN DEVELOPMENT	County* LAPEER	Type* AUTHORITY	MuniCode* 44-7-508
Opinion Date-Use Calendar* Nov 4, 2008	Audit Submitted-Use Calendar* Nov 7, 2008	Fiscal Year End Month* 06	Fiscal Year* 2008

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No."

<input checked="" type="checkbox"/> ?	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/> ?	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/> ?	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/> ?	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/> ?	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/> ?	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/> ?	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/> ?	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/> ?	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/> ?	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/> ?	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/> ?	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/> ?	13. Is the audit opinion unqualified? 14. If not, what type of opinion is it? NA
<input checked="" type="checkbox"/> ?	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/> ?	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/> ?	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input type="checkbox"/> ?	18. Are there reported deficiencies? 19. If so, was it attached to the audit report?

General Fund Revenue:	? \$ 81,819.93
General Fund Expenditure:	? \$ 100,394.11
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	? \$ 105,144.04
Governmental Activities Long-Term Debt (see instructions):	? \$ 96,610.17

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (reported deviations).

CPA (First Name)* VICKIE	Last Name* CROUCH	Ten Digit License Number* 1101013436		
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CPA Firm Name* LAYTON AND RICHARDSON	Unit's Street Address* 576 LIBERTY PARK	Unit's City* LAPEER	Unit's Zip* 48446	

DOWNTOWN DEVELOPMENT AUTHORITY
OF THE CITY OF LAPEER, MICHIGAN
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
AND
INDEPENDENT AUDITORS' REPORT

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Layton & Richardson, P.C.

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INDEPENDENT AUDITORS' REPORT

Members of the Downtown Development
Authority of the City of Lapeer
Lapeer, Michigan

We have audited the accompanying basic financial statements of the governmental activities of the DOWNTOWN DEVELOPMENT AUTHORITY OF THE CITY OF LAPEER, MICHIGAN as of and for the year ended June 30, 2008. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Downtown Development Authority of the City of Lapeer, Michigan, as of June 30, 2008, and the results of its operations for the year then ended, in conformity with the U.S. generally accepted accounting principles.

The Management's Discussion and Analysis listed in the table of contents on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standard Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion of the financial statements that collectively comprise the Downtown Development Authority of the City of Lapeer, Michigan's basic financial statements. The introductory section and supplementary section are presented for purposes of additional analysis and are not required part of the basic financial statements. The introductory section, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion on it.

Layton & Richardson, P.C.
Certified Public Accountants

November 4, 2008
East Lansing, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the Downtown Development Authority of the City of Lapeer's financial performance provides an overview of the Downtown Development Authority's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the Downtown Development Authority's financial statements.

FINANCIAL HIGHLIGHTS

- The Downtown Development Authority provided a contribution for Performance Service Agreements to the Lapeer Center for the Arts (LCA) in the amount of \$27,500, Pix Arts Council (PAC) in the amount of \$27,500 and the Downtown Business Association (DBA) in the amount of \$12,500.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Downtown Development Authority as a whole and present a longer-term view of the Downtown Development Authority's finances. Fund financial statements provide more detailed information about the Downtown Development Authority's funds- not the Downtown Development Authority as a whole. These statements tell how these services were financed in the short term as well as what remains for future spending.

Reporting the Downtown Development Authority as a Whole

One of the most important questions asked about the Downtown Development Authority's finances is, "Is the Downtown Development Authority as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Downtown Development Authority as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Downtown Development Authority's *net assets* and changes in them. You can think of the Downtown Development Authority's net assets – the difference between assets and liabilities – as one way to measure the Downtown Development Authority's financial health, or *financial position*. Over time, *increases* or *decreases* in the Downtown Development Authority's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Downtown Development Authority's captured property tax base to assess the *overall health* of the Downtown Development Authority:

In the Statement of Net Assets and the Statement of Activities, the Downtown Development Authority is shown as a governmental activity while within the City of Lapeer's audit they are shown as a component unit:

- Governmental activities – The Downtown Development Authority's services are reported here. Property taxes finance most of these activities.

Reporting the Downtown Development Authority's Most Significant Funds

The fund financial statements provide detailed information about the Downtown Development Authority's funds. The Downtown Development Authority's funds utilize the *governmental* accounting approach.

- *Governmental funds* – Most of the Downtown Development Authority's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Downtown Development Authority's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Downtown Development Authority's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation at the bottom of the fund financial statements.

THE DOWNTOWN DEVELOPMENT AUTHORITY AS A WHOLE

Table 1 was summarized from the Downtown Development Authority Statement of Net Assets. The net assets of the Downtown Development Authority increased from \$540,945 to \$576,401, an increase of \$35,456 or 6.6%. In the prior year, the net assets increased from \$517,941 to \$540,945, an increase of \$23,004 or 4.4%.

Table 1
Net Assets
(In Thousands)

	Governmental Activities 2008	Governmental Activities 2007
Current and other assets	\$ 145.6	\$ 123.0
Capital assets	<u>569.1</u>	<u>584.9</u>
Total assets	<u>714.7</u>	<u>707.9</u>
Long-term debt		
Outstanding	96.6	116.9
Other liabilities	<u>41.7</u>	<u>50.0</u>
Total liabilities	<u>138.3</u>	<u>166.9</u>
Net assets:		
Invested in capital assets,		
Net of debt	472.5	468.0
Restricted	0.0	0.0
Unrestricted (deficit)	<u>103.9</u>	<u>73.0</u>
Total net assets	\$ <u><u>576.4</u></u>	\$ <u><u>541.0</u></u>

Governmental Activities

As stated previously, the net assets of the Downtown Development Authority's governmental activities increased by \$35,456.20 or 6.6%. Unrestricted net assets – the part of net assets that can be used to finance day –to –day operations without constraints established by debt covenants, enabling legislation, or other legal requirements-is recorded as a surplus of \$103,862.68.

Table 2 was summarized from the government-wide Statement of Activities. This table summarizes the government-wide program revenues, other revenues, and expenses of the Downtown Development Authority.

Table 2
Changes in Net Assets
(In Thousands)

	Governmental Activities <u>2008</u>	Governmental Activities <u>2007</u>
Revenues:		
Program revenues:		
Charges for Services	\$ 0.0	\$ 0.0
Operating grants and contributions	0.0	1.6
General revenues:		
Property taxes	39.4	35.3
Other	<u>42.4</u>	<u>44.8</u>
Total Revenues	<u>81.8</u>	<u>81.7</u>
Expenses:		
General government	115.9	121.2
Interest on long-term Debt	<u>0.0</u>	<u>0.0</u>
Total Expenses	<u>115.9</u>	<u>121.2</u>
Increase in net assets		
Before transfers	(34.1)	(39.5)
Transfers		<u>69.5</u>
Increase (Decrease) in		
Net Assets	35.4	23.1
Net assets, July 1	<u>541.0</u>	<u>517.9</u>
Net assets, June 30	<u>\$ 576.4</u>	<u>\$ 541.0</u>

62.6

Total revenue from all sources totaled \$81,820 of which 38.4% or \$39,398 is from property taxes. Other revenues consist of unrestricted investment earnings of \$5,302, rental income of \$25,357, art sales of \$7,667, donations of \$4,052 and miscellaneous revenue of \$43. The Downtown Development Authority also receives a transfer of captured taxes from the General Fund of the City of Lapeer in the amount of \$97,041 and a transfer from the Infrastructure Fund in the amount of \$10,000 to fund Building Improvements at the Pix Theater. The Downtown Development Authority captured the City of Lapeer millage rate of 9.8000 and the county operation millage of 3.7886 for this fiscal year.

The governmental activities of the Downtown Development Authority had an expense of \$115,874, including depreciation expense of \$15,770, for the past fiscal year. Due to utilizing full accrual on the government-wide statements, the expenditures for capital assets including infrastructure are not recorded as expenses in the current year but are capitalized on the Statement of Net Assets and are depreciated over the useful life of the asset. Only the current year depreciation would be included as an expense. Additionally, the Downtown Development Authority had transfers to the General Fund in the amount of \$9,721 for payment of the city administration fee, a transfer to the General Fund of \$884 for interest LCA Building roof repair loan, a transfer to the Major Street Fund of \$25,053 to reimburse this fund for their share of the 2002 General Obligation Bond issued to fund a portion of the cost for the Downtown Improvement Project, a transfer to the 2005 Equipment Financing Fund of \$14,319 to pay the debt service on the LCA Building, and a transfer to the Parking Fund in the amount of \$7,892 to provide an operational subsidy to the Parking Fund. Additionally, the Downtown Development Authority Fund provided an operational subsidy to the LCA Fund in the amount of \$27,500.

The \$115,874 for governmental activities along with the transfers of \$85,369 to the general fund, major street fund, 2005 equipment financing fund, and parking fund of the City of Lapeer is funded from \$39,398 in property taxes. Additionally, the balance of this cost is funded from transfers from the City of Lapeer General Fund for captured taxes in the amount of \$97,041 and the Infrastructure Fund in the amount of \$10,000 for building improvements and other revenues.

THE DOWNTOWN DEVELOPMENT AUTHORITY'S FUNDS

The Downtown Development Authority District #1 received a total of \$136,438 in captured property taxes. The Downtown Development Authority District #1 expended funds on various projects this year which included the reimbursement to the City of Lapeer for debt service on the 2002 General Obligation bond issued to fund a portion of the cost of the Downtown Improvement Project in the amount of \$25,053.

They also expended funds for a transfer to the General Fund of \$884 for interest on the LCA Building roof repair loan, a transfer to the 2005 Equipment Financing Fund of \$14,319 to pay the debt service on the LCA Building, a transfer to the Parking Fund in the amount of \$7,892 to provide an operational subsidy to the Parking Fund, a transfer to the LCA Fund in the amount of \$27,500 to provide an operational subsidy and the Pix Arts Council Promotion Services Agreement in the amount of \$27,500. Funds were expended in the amount of \$12,500 for a Promotion Services Agreement with the Downtown Business Association to administer the Farmer's Market Program. Other expenses of the district include legal fees of \$700, design committee of \$300, property maintenance and utilities of \$4,298, and other miscellaneous items in the amount of \$2,529. Additionally, the district pays an administration fee to the City of Lapeer in the amount of \$9,721 for accounting services and project management. The fund balance increased from \$65,254 to \$84,299, an increase of \$18,975 or 29.1%.

The LCA Fund received total revenues of \$36,619 which was comprised of Rental Income in the amount of \$25,357, Art Sales in the amount of \$7,667, interest income of \$1,000, donations of \$2,552, and miscellaneous revenue of \$43. Additionally, the Downtown Development Authority Fund provided an operational subsidy of \$27,500. The total expenditures were \$52,567 and consisted of property maintenance and utilities in the amount of \$17,558, Exhibit Fees in the amount of \$5,394, Art Commissions in the amount of \$6,315, Wages and benefits in the amount of \$8,708, Supplies of \$3,635, Advertising in the amount of \$3,172, Equipment Rental of \$2,308, Printing of \$1,701, and other miscellaneous expenses \$3,775. The fund balance increased from \$9,292 to \$20,845 an increase of \$11,553 or 124.3%.

Downtown Development Authority Budgetary Highlights

The Downtown Development Authority Budget total did not change during the fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Downtown Development Authority's investment in capital assets for its governmental activities as of June 30, 2008, amounts to \$569,149.18 (net of accumulated depreciation). This is a decrease of \$15,769.90 from the prior year amount of \$584,919.08. This investment in capital assets is for land, buildings, and equipment.

There were no major capital asset events during the current fiscal year.

Debt

At year-end, the Downtown Development Authority's total bonded debt outstanding was at \$96,610 versus \$116,949 last year – a decrease of \$20,339 or 17.4% -as shown in Table 3.

Table 3
Outstanding Debt at Year-End
(In Thousands)

	Governmental Activities	
	<u>2008</u>	<u>2007</u>
General Obligation bonds (backed by the City)	\$ 96.6	\$ 116.9
Totals	<u>\$ 96.6</u>	<u>\$ 116.9</u>

The Downtown Development Authority has agreed to fund a portion of the 2002 General Obligation Bond which was issued to fund a portion of the cost of the Downtown Improvement Project. The total amount issued was \$590,000 of which \$200,000 will be funded by the Downtown Development Authority.

The city's general obligation bond rating continues to carry a Baa from Moody's Investor Services since 1993 while Standard & Poor's has upgraded the city's rating from a BBB+ to an A-.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Inflationary trends in the region compare favorably to national indices.
- Projected captured taxable value as determined by the City Assessor.

These factors were considered in preparing the Downtown Development Authority of Lapeer's budget for Fiscal Year 2008-2009.

The Downtown Development Authority reviews its current budget to determine available fund balances to be appropriated for the new year budget. This along with the projected captured taxable value from the city assessor provides the basis of establishing the annual budget. Funds are appropriated based upon project recommendations made by the City of Lapeer staff to the Downtown Development Authority Board. Funds not appropriated for specific projects are budgeted as "Contingency". These funds can then be utilized to fund any project that may develop during the fiscal year or to provide additional funding to a project if actual costs were to exceed the budget.

Requests for Information

This financial report is designed to provide a general overview of the Downtown Development Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Lapeer, Director of Financial Services, 576 Liberty Park, Lapeer, MI 48446.

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2008

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF NET ASSETS
ASSETS			
Cash - checking	\$ 23,958.62	\$	\$ 23,958.62
Cash - savings	118,873.59		118,873.59
Prepaid insurance	20.00		20.00
Due from other funds	2,695.04		2,695.04
Capital assets		569,149.18	569,149.18
	<u>\$ 145,547.25</u>	<u>\$ 569,149.18</u>	<u>\$ 714,696.43</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 844.43	\$	\$ 844.43
Accrued payroll and payroll taxes	87.20		87.20
Security deposits	1,944.00		1,944.00
Due to other funds	37,527.58		37,527.58
Accrued interest		1,281.36	1,281.36
Long-term liabilities			
Portion due within one year		20,338.98	20,338.98
Portion due after one year		76,271.19	76,271.19
	<u>40,403.21</u>	<u>97,891.53</u>	<u>138,294.74</u>
FUND BALANCE			
Invested in capital assets, net of related debt		472,539.01	472,539.01
Unreserved	105,144.04	(1,281.36)	103,862.68
	<u>105,144.04</u>	<u>471,257.65</u>	<u>576,401.69</u>
	<u>\$ 145,547.25</u>	<u>\$ 569,149.18</u>	<u>\$ 714,696.43</u>

See accompanying notes to financial statements.

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS**

JUNE 30, 2008

Total fund balances - governmental funds			\$ 105,144.04
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$646,792.01 and the accumulated depreciation is \$77,642.83			569,149.18
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:			
Bonds payable	\$ 96,610.17		
Accrued interest	<u>1,281.36</u>		<u>(97,891.53)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES			\$ <u><u>576,401.69</u></u>

See accompanying notes to financial statements.

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUE,
EXPEDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2008

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF NET ACTIVITIES
EXPENDITURES			
General government	\$ 100,394.11	\$ (289.64)	\$ 100,104.47
Depreciation		<u>15,769.90</u>	<u>15,769.90</u>
	<u>100,394.11</u>	<u>15,480.26</u>	<u>115,874.37</u>
REVENUES			
Program Revenues			
Operating grants and contributions			
Net program expense	<u>(100,394.11)</u>	<u>(15,480.26)</u>	<u>(115,874.37)</u>
General Revenues			
Property taxes	39,397.89		39,397.89
Interest income	5,302.39		5,302.39
Miscellaneous	37,119.65		37,119.65
Transfers - internal activities	<u>49,171.66</u>	<u>20,338.98</u>	<u>69,510.64</u>
	<u>130,991.59</u>	<u>20,338.98</u>	<u>151,330.57</u>
CHANGE IN NET ASSETS	30,597.48	4,858.72	35,456.20
FUND BALANCE/NET ASSETS, JULY 1	<u>74,546.56</u>	<u>466,398.93</u>	<u>540,945.49</u>
FUND BALANCE/NET ASSETS, JUNE 30	\$ <u><u>105,144.04</u></u>	\$ <u><u>471,257.65</u></u>	\$ <u><u>576,401.69</u></u>

See accompanying notes to financial statements.

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2008

Net changes in fund balances - total governmental funds	\$ 30,597.48
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets are depreciated over their estimated useful lives.	
Less: current year depreciation	(15,769.90)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.	
Accrued interest	289.64
Principal payments	<u>20,338.98</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u><u>35,456.20</u></u>

See accompanying notes to financial statements.

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 1: REPORTING ENTITY

In accordance with the criteria established by the National Council on Governmental Accounting (NCGA) Statement 3, the Downtown Development Authority is considered a component unit of the City of Lapeer, Michigan for financial accounting and reporting purposes. These criteria include: the extent of oversight responsibility, selection of governing authority, designation of management, the ability of the City to significantly influence operations, the accountability for fiscal matters including the level of City financing and/or moral and legal responsibility for long-term debt.

The financial statements of the Downtown Development Authority of the City of Lapeer are presented as the financial statements of a fund which is an integral part of the financial reporting oversight unit of the City of Lapeer, Michigan.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Downtown Development Authority conform to U.S. generally accepted accounting principles as applicable to governmental units. The summary of the more significant accounting policies are presented to assist the reader in interpreting the financial statements and other data in this report.

A. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government of the Downtown Development Authority of the City of Lapeer. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

B. Measurement Focus, Basis of Accounting and Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2008

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – Continued

B. Measurement Focus, Basis of Accounting and Financial Statements - Concluded

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise fees, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Downtown Development Authority.

C. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. streets, bridges, and sidewalks), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Downtown Development Authority as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year.

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value on the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Depreciation of all exhaustible capital assets used is charged as an expense against their operations in the government-wide statements. Accumulated depreciation is reported on the government-wide statement. The straight-line depreciation method is applied over the estimated useful life of fixed assets.

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2008

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – Concluded

D. Capital Assets - Concluded

The straight-line depreciation method is used for all depreciable capital assets. The estimated useful lives for capital assets are displayed in the table below:

ASSET CLASS	DEPRECIABLE LIFE
Land	n/a
Land improvements	10-20 years
Buildings	10-40 years

E. Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt received, are reported as debt service.

NOTE 3: **CASH, CASH EQUIVALENTS AND INVESTMENTS**

In accordance with Michigan Compiled Laws, the City Treasurer is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2008

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits of \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2008, the carrying amount of the Authority's deposits was \$142,832.21 and the bank balance was \$143,004.89, of which \$119,372.88 was covered by federal depository insurance. The remaining balance of \$23,632.01 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Authority held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year end.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2008, the Authority did not have any investment that would be subject to rating.

Interest Rate Risk

The Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by designing its portfolio in a manner to attain a market rate of return throughout the budgetary and economic cycles while preserving and protecting capital.

Concentration of Credit Risk

The Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio to prevent over concentration of assets in a specific maturity, individual financial institution, or specific class of securities.

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2008

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS – Concluded

Custodial Credit Risk

The Authority will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer by:

- ? Limiting investments to the types of securities listed in the Authority's investment policy.
- ? Pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors with which the Authority will do business in accordance with the Authority's investment policy.

NOTE 4: INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2008, are as follows:

FUND	DUE TO	FUND	DUE FROM
General	\$ 37,527.58	Downtown Dev. Authority	\$ 37,527.58
Downtown Dev. Authority	<u>2,695.04</u>	General	<u>2,695.04</u>
	<u>\$ 40,222.62</u>		<u>\$ 40,222.62</u>

The interfund receivables and payables were made for cash flow purposes.

NOTE 5: CHANGES IN LONG-TERM DEBT

Changes in long-term debt of the Authority are as follows:

	BALANCE, JULY 1	ADDITIONS	DELETIONS	BALANCE, JUNE 30
2002 General Obligation Tax Bond	<u>\$ 116,949.15</u>	<u>\$</u>	<u>\$ 20,338.98</u>	<u>\$ 96,610.17</u>

The annual requirements to amortize long-term debt outstanding as of June 30, 2008, including interest of \$8,979.66 are as follows:

YEAR ENDING JUNE 30,	GENERAL OBLIGATION
2009	\$ 24,183.05
2010	28,271.19
2011	27,139.83
2012	<u>25,995.76</u>
	<u>\$ 105,589.83</u>

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS - Concluded

JUNE 30, 2008

NOTE 6: CAPITAL ASSETS

A summary of changes in the Authority's capital assets is as follows:

	JULY 1	ADDITIONS	DELETIONS	TRANSFERS	JUNE 30
Capital assets not being depreciated					
Land	\$ 154,000.00	\$	\$	\$	\$ 154,000.00
Construction in progress	<u> </u>	<u> </u>	<u> </u>	<u>()</u>	<u> </u>
Total capital assets not being depreciated	<u>154,000.00</u>	<u> </u>	<u> </u>	<u>()</u>	<u>154,000.00</u>
Capital assets being depreciated					
Buildings	<u>492,792.01</u>	<u> </u>	<u> </u>	<u> </u>	<u>492,792.01</u>
Less: Accumulated depreciation					
Buildings	<u>61,872.93</u>	<u>15,769.90</u>	<u> </u>	<u> </u>	<u>77,642.83</u>
Total capital assets being depreciated, net	<u>430,919.08</u>	<u>(15,769.90)</u>	<u> </u>	<u> </u>	<u>415,149.18</u>
Net capital assets	<u>\$ 584,919.08</u>	<u>\$ (15,769.90)</u>	<u>\$ </u>	<u>\$ </u>	<u>\$ 569,149.18</u>

NOTE 7: OPERATING TRANSFERS

The operating transfers between funds are as follows:

FUND	TRANSFER IN	FUND	TRANSFER OUT
Downtown Dev. Authority	\$ <u>97,040.64</u>	General	\$ <u>97,040.64</u>
Debt Service		Downtown Dev. Authority	
General	10,605.11		57,868.98
Major Street	25,052.54		
2005 Equipment Financing	14,319.33		
Parking	<u>7,892.00</u>		<u> </u>
Subtotal	<u>57,868.98</u>	Subtotal	<u>57,868.98</u>
Downtown Dev. Authority	<u>10,000.00</u>	Capital Improvement	<u>10,000.00</u>
LCA – Downtown Dev. Authority	<u>27,500.00</u>	Downtown Dev. Authority	<u>27,500.00</u>
TOTAL	<u>\$ 192,409.62</u>		<u>\$ 192,409.62</u>

These transfers were made for cash flow purposes.

REQUIRED SUPPLEMENTARY INFORMATION

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

GENERAL OPERATIONS

FOR THE YEAR ENDED JUNE 30, 2008

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES				
Property taxes	\$ 134,787.00	\$ 134,787.00	\$ 37,417.42	\$ (97,369.58)
Penalty and interest			1,980.47	1,980.47
Interest income	3,600.00	3,600.00	4,302.71	702.71
Donations	<u>1,500.00</u>	<u>1,500.00</u>	<u>1,500.00</u>	
TOTAL REVENUES	<u>139,887.00</u>	<u>139,887.00</u>	<u>45,200.60</u>	<u>(94,686.40)</u>
EXPENDITURES				
Attorney	1,000.00	1,000.00	700.00	300.00
Design committee	6,000.00	6,000.00	300.00	5,700.00
Beautification	1,500.00	1,500.00	687.99	812.01
Lapeer Development Corporation	750.00	750.00	750.00	
Development committee	17,500.00	17,500.00	300.00	17,200.00
Property maintenance and utilities	12,000.00	12,000.00	4,297.92	7,702.08
Promotion services agreement	40,000.00	40,000.00	40,000.00	
Miscellaneous	<u>500.00</u>	<u>500.00</u>	<u>791.45</u>	<u>(291.45)</u>
TOTAL EXPENDITURES	<u>79,250.00</u>	<u>79,250.00</u>	<u>47,827.36</u>	<u>31,422.64</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>60,637.00</u>	<u>60,637.00</u>	<u>(2,626.76)</u>	<u>(63,263.76)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	10,000.00	10,000.00	107,040.64	97,040.64
Transfers out	<u>(91,986.00)</u>	<u>(91,986.00)</u>	<u>(85,368.98)</u>	<u>6,617.02</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(81,986.00)</u>	<u>(81,986.00)</u>	<u>21,671.66</u>	<u>103,657.66</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(21,349.00)	(21,349.00)	19,044.90	40,393.90
FUND BALANCE, JULY 1	<u>65,254.12</u>	<u>65,254.12</u>	<u>65,254.12</u>	
FUND BALANCE, JUNE 30	<u>\$ 43,905.12</u>	<u>\$ 43,905.12</u>	<u>\$ 84,299.02</u>	<u>\$ 40,393.90</u>

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

LCA FUND

FOR THE YEAR ENDED JUNE 30, 2008

	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
REVENUES				
Interest income	\$ 340.00	\$ 340.00	\$ 999.68	\$ 659.68
Rental income	23,470.00	23,470.00	25,357.34	1,887.34
Donations	1,200.00	1,200.00	2,552.00	1,352.00
MCACA Grant	1,200.00	1,200.00		(1,200.00)
Art sales	5,480.00	5,480.00	7,667.11	2,187.11
Miscellaneous	<u>3,000.00</u>	<u>3,000.00</u>	<u>43.20</u>	<u>(2,956.80)</u>
TOTAL REVENUES	<u>34,690.00</u>	<u>34,690.00</u>	<u>36,619.33</u>	<u>1,929.33</u>
EXPENDITURES				
Supplies	8,800.00	8,658.00	3,635.44	5,022.56
Property and boiler insurance	500.00	500.00	370.00	130.00
Equipment rental	2,815.00	2,815.00	2,307.64	507.36
Commissions - art	3,000.00	3,000.00	6,315.44	(3,315.44)
Exhibit fees	9,300.00	9,300.00	5,393.92	3,906.08
Memberships and subscriptions	240.00	240.00	87.94	152.06
Advertising	3,900.00	3,900.00	3,172.45	727.55
Printing	1,920.00	1,920.00	1,700.75	219.25
Property maintenance and utilities	20,245.00	20,245.00	17,557.67	2,687.33
Wages	5,433.00	5,433.00	8,708.08	(3,275.08)
Contractual service	3,600.00	3,600.00	2,639.30	960.70
Auto expense	500.00	500.00	499.00	1.00
Miscellaneous	<u></u>	<u>142.00</u>	<u>179.12</u>	<u>(37.12)</u>
TOTAL EXPENDITURES	<u>60,253.00</u>	<u>60,253.00</u>	<u>52,566.75</u>	<u>7,686.25</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(25,563.00)</u>	<u>(25,563.00)</u>	<u>(15,947.42)</u>	<u>9,615.58</u>
OTHER FINANCING SOURCES				
Transfers in	<u>27,500.00</u>	<u>27,500.00</u>	<u>27,500.00</u>	
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	1,937.00	1,937.00	11,552.58	9,615.58
FUND BALANCE, JULY 1	<u>9,292.44</u>	<u>9,292.44</u>	<u>9,292.44</u>	
FUND BALANCE, JUNE 30	<u>\$ 11,229.44</u>	<u>\$ 11,229.44</u>	<u>\$ 20,845.02</u>	<u>\$ 9,615.58</u>

SUPPLEMENTARY INFORMATION

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**
COMBINED BALANCE SHEET
JUNE 30, 2008

	GENERAL OPERATIONS	LCA FUND	TOTAL
ASSETS			
Cash in checking	\$ 326.61	\$ 23,632.01	\$ 23,958.62
Cash in savings	118,873.59		118,873.59
Prepaid insurance		20.00	20.00
Due from other funds	<u>2,695.04</u>		<u>2,695.04</u>
TOTAL ASSETS	<u>\$ 121,895.24</u>	<u>\$ 23,652.01</u>	<u>\$ 145,547.25</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 68.64	\$ 775.79	\$ 844.43
Security deposits		1,944.00	1,944.00
Accrued wages		87.20	87.20
Due to other funds	<u>37,527.58</u>		<u>37,527.58</u>
TOTAL LIABILITIES	<u>37,596.22</u>	<u>2,806.99</u>	<u>40,403.21</u>
FUND BALANCE			
Unreserved - undesignated	<u>84,299.02</u>	<u>20,845.02</u>	<u>105,144.04</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 121,895.24</u>	<u>\$ 23,652.01</u>	<u>\$ 145,547.25</u>

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2008**

	GENERAL OPERATIONS	LCA FUND	TOTAL
REVENUES			
Property taxes	\$ 37,417.42	\$	\$ 37,417.42
Penalty and interest	1,980.47		1,980.47
Interest income	4,302.71	999.68	5,302.39
Donations	1,500.00	2,552.00	4,052.00
Rental income		25,357.34	25,357.34
Art sales		7,667.11	7,667.11
Miscellaneous		43.20	43.20
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	45,200.60	36,619.33	81,819.93
EXPENDITURES			
Supplies		3,635.44	3,635.44
Property and boiler insurance		370.00	370.00
Equipment rental		2,307.64	2,307.64
Attorney	700.00		700.00
Commissions - art		6,315.44	6,315.44
Exhibit fees		5,393.92	5,393.92
Design committee	300.00		300.00
Beautification	687.99		687.99
Memberships and subscriptions		87.94	87.94
Advertising		3,172.45	3,172.45
Lapeer Development Corporation	750.00		750.00
Development committee	300.00		300.00
Printing		1,700.75	1,700.75
Property maintenance and utilities	4,297.92	17,557.67	21,855.59
Promotion services agreement	40,000.00		40,000.00
Wages		8,708.08	8,708.08
Contractual service		2,639.30	2,639.30
Auto expense		499.00	499.00
Miscellaneous	791.45	179.12	970.57
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	47,827.36	52,566.75	100,394.11
DEFICIENCY OF REVENUES OVER EXPENDITURES	<hr/> (2,626.76) <hr/>	<hr/> (15,947.42) <hr/>	<hr/> (18,574.18) <hr/>
OTHER FINANCING SOURCES (USES)			
Transfers in	107,040.64	27,500.00	134,540.64
Transfers out	<hr/> (85,368.98) <hr/>	<hr/>	<hr/> (85,368.98) <hr/>
TOTAL OTHER FINANCING SOURCES (USES)	<hr/> 21,671.66 <hr/>	<hr/> 27,500.00 <hr/>	<hr/> 49,171.66 <hr/>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	19,044.90	11,552.58	30,597.48
FUND BALANCE, JULY 1	<hr/> 65,254.12 <hr/>	<hr/> 9,292.44 <hr/>	<hr/> 74,546.56 <hr/>
FUND BALANCE, JUNE 30	\$ <hr/> 84,299.02 <hr/>	\$ <hr/> 20,845.02 <hr/>	\$ <hr/> 105,144.04 <hr/>



Layton & Richardson, P.C.

Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Downtown Development
Authority of the City of Lapeer
Lapeer, Michigan

We have audited the accompanying financial statements of the governmental activities of the Downtown Development Authority of the City of Lapeer, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the Downtown Development Authority of the City of Lapeer, Michigan's basic financial statements and have issued our report thereon dated November 4, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Downtown Development Authority of the City of Lapeer, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Downtown Development Authority of the City of Lapeer, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the Downtown Development Authority of the City of Lapeer, Michigan, in a separate letter dated November 4, 2008.

This report is intended solely for the information and use of management, the Authority, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Layton & Richardson, P.C.
Certified Public Accountants

East Lansing, Michigan
November 4, 2008

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LETTER OF COMMENTS AND RECOMMENDATIONS

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Members of the Downtown Development
Authority of the City of Lapeer
Lapeer, Michigan

We have audited the financial statements of the Downtown Development Authority of the City of Lapeer, Michigan for the year ended June 30, 2008, and have issued our report on those statements.

As part of the audit process, we tested and evaluated the system of internal accounting controls and the procedures used to record the financial transactions of the Downtown Development Authority of the City of Lapeer. These tests and evaluations are important to the audit process because they serve as the basis for our opinion on the reliability and accuracy of the financial statements. No conditions were observed during the audit which are believed to be material weaknesses in the management control system.

We appreciate the cooperation and assistance provided to us by the management and staff of the Downtown Development Authority of the City of Lapeer during the audit and we thank them.

Very truly yours,

Layton & Richardson, P.C.

Certified Public Accountants

East Lansing, Michigan
November 4, 2008